

Risk Analysis- Insurance Risk Management of CDIC Taiwan

William Su
Risk Management Dept. CDIC

I. Financial Safety Net In Taiwan

II. Structure & Responsibilities of the Risk Management

III. Overview of the Risk Management

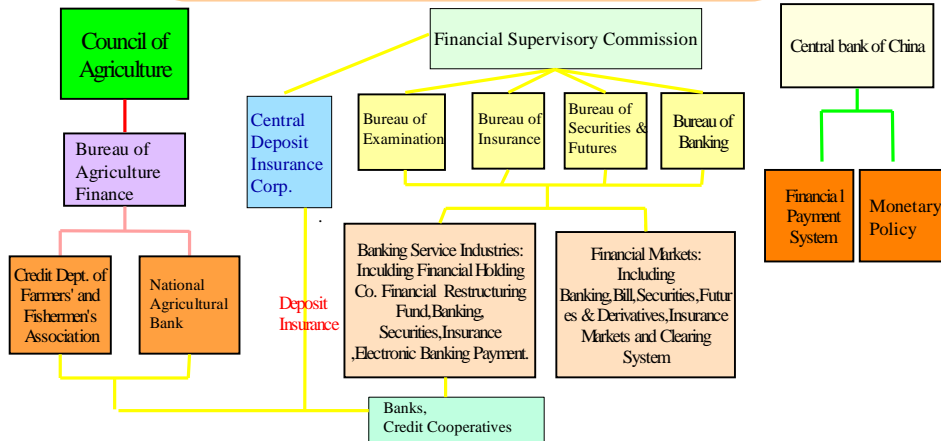
IV. Information Sharing & Risk Analysis System

V. Measures of the Risk Management

VI. Strategies for Managing the Future Insurance Risk

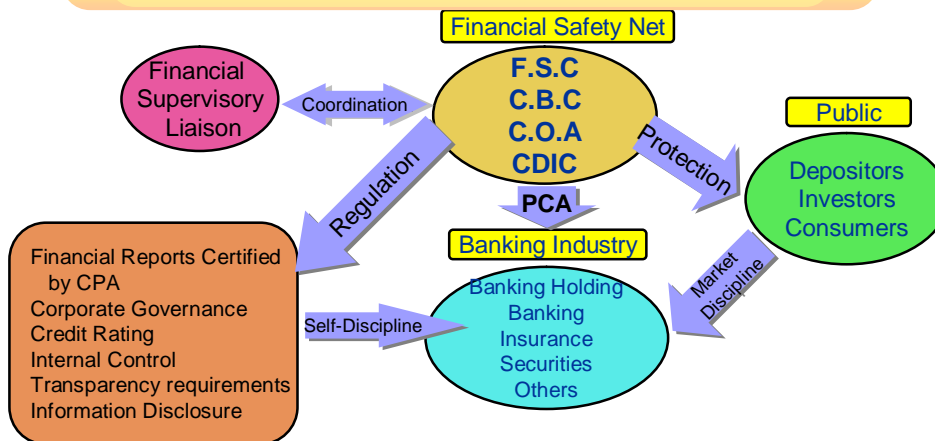
I. Financial Safety Net In Taiwan

Financial Safety Net In Taiwan



I. Financial Safety Net In Taiwan

Function of the Financial Safety Net in Taiwan



I. Financial Safety Net In Taiwan

Financial Safety Net Liaison System

Examination
towards
Financial
Institutions

Financial
Supervisory
Commission

Financial Supervisory
Liaison

1. Consultation of Major Banking System and Policy
2. Dealing with Individual Problem Bank
3. Handling Systemic Banking Crisis
4. Handling Emergent Bank Liquidity Crisis
5. Information Sharing
6. Others

Council of
Agriculture

Central Bank
of China

CDIC



Insurance Risk Management of CDIC

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II. Structure & Responsibilities of the Risk Management

A. Objectives of Insurance Risk Management

- ∅ To safeguard the benefits of depositors in member institutions.
- ∅ To minimize the insurance risk.
- ∅ To prevent from paying out.

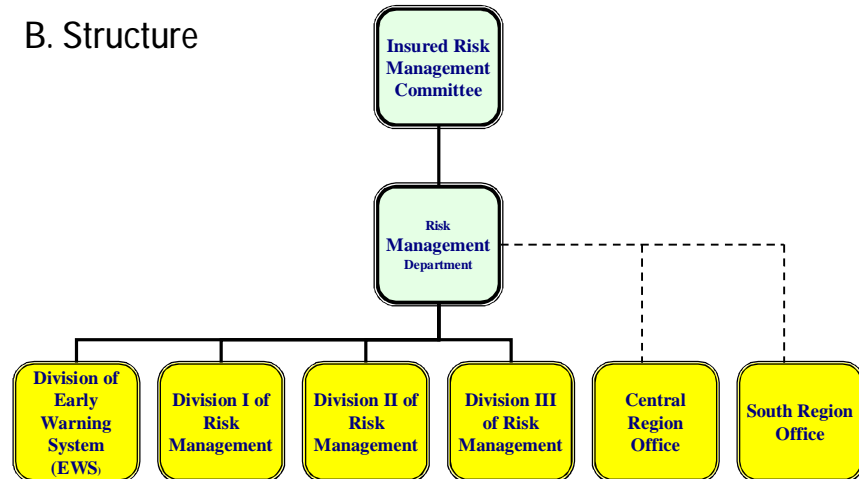


Insurance Risk Management of CDIC

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II. Structure & Responsibilities of the Risk Management

B. Structure



II. Structure & Responsibilities of the Risk Management

C. Staff allocation

The Risk Management Department : 29 staffs

A Director, two Deputy Directors, two Assistant Directors, four Division Chiefs(five contract employees included).

The Central Region Office : 8 staffs

The South Region Office : 10 staffs

There are 47 people in charge of risk management



II. Structure & Responsibilities of the Risk Management

D. Insured Risk Management Committee

Ø Chaired by the Executive Vice President

Ø Committee members:

- Director of the Risk Management Department
- Director of the Business Department
- Director of the Inspection Department
- Director of the Resolution Department
- Director of the Legal Affairs Office



II. Structure & Responsibilities of the Risk Management

D. Insured Risk Management Committee

Major responsibilities are to review the following:

- Administrative policy on control of insurance risk
- Applications by financial institutions as a member of CDIC
- Research and revision of the EWS
- Research and revision of regulations and manuals to reduce insurance risk
- Warning notices of termination of deposit insurance contracts
- Termination of deposit insurance contracts
- Other related cases



II. Structure & Responsibilities of the Risk Management

E. Major Duties of the Risk Management Department

- Ø Handling the operation and R&D of EWS
- Ø Collecting, sorting, analyzing and managing business information of insured institutions
- Ø Handling information sharing and cooperation with financial supervisory authorities
- Ø Assisting insured institutions to improve risk management
- Ø Providing supervisory guidance or superintendence to insured institutions pursuant to the Banking Act
- Ø Assisting insured institutions in handling panic runs
- Ø Issuing warning notices of terminating deposit insurance contracts
- Ø Proposing termination of deposit insurance contracts
- Ø Other risk management related issues



II. Structure & Responsibilities of the Risk Management

F. 392 Insured institutions under jurisdiction

Risk Management Department

The Central Region Office

The South Region Office

Total 180

- Ø 38 domestic banks
- Ø 27 local branches of foreign banks
- Ø 14 credit cooperatives
- Ø 101 agricultural financial institutions (including the Agricultural Bank of Taiwan)

Total 114

- Ø 10 credit cooperatives
- Ø 104 agricultural financial institutions

Total 98

- Ø Two credit cooperatives
- Ø 96 agricultural financial institutions



A. Superintendence

- Ø Legal basis: Article 44-2 of the Banking Act and related regulations
- Ø Objective: At the point of crisis triggered by major frauds, banks runs or capital significantly inadequacy, CDIC acted as superintendent to protect the interests and rights of depositors
- Ø Method: On-site superintendence with the power of inspection
- Ø Results: Up to the end of 2010, 7 cases completed, among which 6 were handled through P&A and 1 recovered



B. On-site guidance

- Ø Legal basis: Article 61-1 of the Banking Act
- Ø Objective: To facilitate insured institutions to recover normal operations or being acquired
- Ø Method:
 - (1) Dispatching officers for on-site guidance
 - (2) Attending board meetings
 - (3) Sending written guidance letter
- Ø Results: Up to the end of 2010, CDIC completed guidance to 61 institutions
 - ☼ including 10 banks, 3 trust and investment companies, 17 credit cooperatives and 31 the credit departments of farmers' and fishermen's associations
 - ☼ Among them, 55 institutions were acquired by other institutions and 6 institutions restored to normal operations





C. Adopting special call reports monitoring towards insured institutions with higher insurance risk

- Ø Legal basis: Article 22 of the Deposit Insurance Act
- Ø Objective: To correct business risk promptly
- Ø Method: Call-report off-site monitoring
- Ø Timing: When insured institutions involved with concentration risks of lending, investments or specific business risks



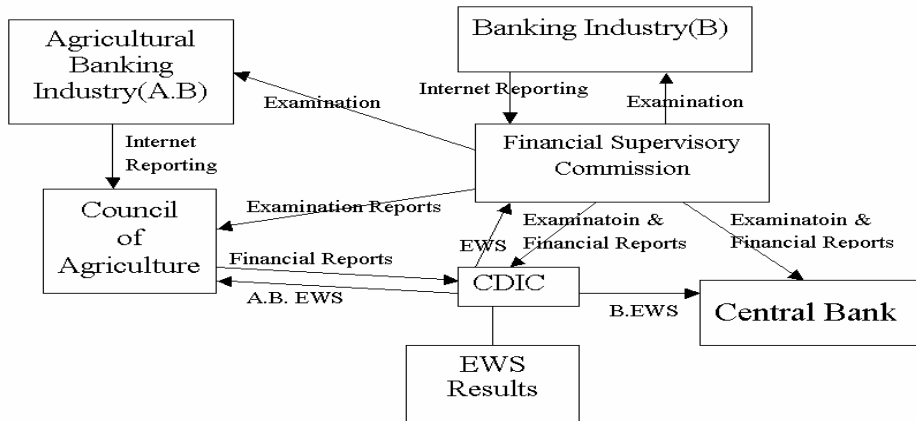
D. Dispatching staff to handle panic runs

- Ø Timing: When insured institutions suffered from panic runs
- Ø Method: CDIC officers provide short-term on-site assistance, including explaining the situations directly to depositors, in some cases in conjunction with measures of on-site guidance 、superintendence or conservatorship when necessary.
- Ø Results: Up to the end of 2010, CDIC successfully helped 59 insured institutions to overcome panic-runs with an average 2-3 days run on banks.



IV. Information Sharing & Risk Analysis system

A. Enhancing Information Sharing and Coordination Mechanisms with Supervisory Agencies



IV. Information Sharing & Risk Analysis system

A. Enhancing Information Sharing and Coordination Mechanisms with Supervisory Agencies

1. Producing financial early warning reports, and submitting to supervisory agencies

Periodical Reports:

- ☐ Monthly reports: Write-offs Report and Past Due Loans Report of Community Financial Institutions
- ☐ Quarterly reports: Quarterly Analysis Report of Financial Institutions、the Percentile Ranking Data Report、
- ☐ Semi-annual reports: Financial Examination Data Rating Report

Special Reports:

Depending upon conditions or requests from the competent authorities



IV. Information Sharing & Risk Analysis system

A. Enhancing Information Sharing and Coordination Mechanisms with Supervisory Agencies

2

Participating in meetings of the Financial Supervisory Liaison Committee

3

Enhancing the efficiency of reporting system

- Assigning specialists to support Single-Window Reporting System
- Assisting the BOAF to adjust and upgrade the Internet Reporting System



IV. Information Sharing & Risk Analysis system

A. Enhancing Information Sharing and Coordination Mechanisms with Supervisory Agencies

4

Giving opinions to the BOAF

- Ø Supervisory laws or regulations under stipulation or revision
- Ø Any shortcomings of farmers' and fishermen's associations
- Ø To enhance financial supervision of agricultural financial institutions

5

Upon requests by the competent authorities, CDIC provides related information or recommendations on specific insured institutions to enhance financial supervision



IV. Information Sharing & Risk Analysis system

B. Enhancing off-site monitoring mechanism and financial EWS in order to effectively grasp business information and timely rectify business risks of insured institutions



IV. Information Sharing & Risk Analysis system

Risk Analysis of the EWS(I)

Subsystem Items	Examination Rating System (ERS)	Call Report System	Internet Transmission Surveillance System	Account Officer Analysis System
Data Sources	Reports of Examination from Banking Examination Agencies	Call Reports from Members	Daily Data from Members	Report of Examination and Up-to-Date Data
Frequency of Reports	Semiannually	Quarterly	Daily, Weekly & Monthly	Monthly · Quarterly or Annually Depends on Cases
Rating Results	A.B.C.D.E	Percentile Ranking:1-99	Warning Signals	Insurance Risk Prediction



IV. Information Sharing & Risk Analysis system

Risk Analysis of the EWS(II)

Subsystem Items	Examination Rating System(ERS)	Call Report System	Internet Transmission Surveillance System	Account Officer Analysis System
Model	CAMEL Model	Statistical Percentile Ranking of Measure Location	Linear Moving Average	Stress Test
Indicators	CAMELSO	CAELSO	Specific Items from Balance Sheets	Mainly Criticized Assets etc.
Information Sharing	FSC Central Bank Council of Agriculture Local Government	FSC Central Bank Council of Agriculture Local Government	1. Members 2. Related Supervisors When it's Necessary	Internal Risk Management



IV. Information Sharing & Risk Analysis system

Risk Analysis of the EWS(III)

Subsystem Items	Examination Rating System(ERS)	Call Report System	Internet Transmission Surveillance System	Account Officer Analysis System
Outcome	Exception List Semi-Annually Report	Follow-up List Quarterly Report	Warning List	Analysis Reports
Future Development	Revised Regularly According to the Economic Cycle.	Call Reporting Rating System	Revised Regularly	Ditto
Risk Premium System Indicators	Composite Score	Certified BIS Ratio or Capital Adequacy Ratio		



IV. Information Sharing & Risk Analysis system

Risk Analysis of the EWS(IV)

Subsystem Items	Examination Rating System(ERS)	Call Report System	Internet Transmission Surveillance System	Account Officer Analysis System
Main Purposes	<ul style="list-style-type: none"> Early intervention Examination Reference Risk Premium Supervisory Administration 	<ul style="list-style-type: none"> Regularly Monitoring Trend Evaluation Peer Group Comparison 	<ul style="list-style-type: none"> Timely Monitoring & Intervention Moral Hazard Prevention 	<ul style="list-style-type: none"> Predict the Possibility of Failure on Special Cases Analyze the insurance Risk
Methodology Assumption	Normal Distribution	Normal Distribution	Non-Normal Distribution	



IV. Information Sharing & Risk Analysis system

Risk Analysis of the EWS(V)

Subsystem Items	Examination Rating System(ERS)	Call Report System	Internet Transmission Surveillance System	Account Officer Analysis System
Strength of System	<ul style="list-style-type: none"> On Site Appraisal Objective Comparable among Members and Examination Base dates 	<ul style="list-style-type: none"> Comparable among Same Peer Group Regularly Monitoring 	Early Intervention	<ul style="list-style-type: none"> Failure & Risk Oriented. Market Value Simulation
Weakness of System	<ul style="list-style-type: none"> Frequency Problem of Examination 	<ul style="list-style-type: none"> Lack of Management Factor Lack of On-Site Asset Appraisal Only Off-Site Review 	<ul style="list-style-type: none"> Time Consuming Heavy Workload 	<ul style="list-style-type: none"> Subjective Off-Site Analysis



IV. Information Sharing & Risk Analysis system

New Risk Analysis System under development — Call Report Rating System (CARRS)

Ø Purposes :

1. To act as one of the key risk indicators to the risk-based premium.
2. To reflect the up-to-date business risk & financial condition of member institutions.
3. To supplement the Examination Rating System.

Ø Model & Data Source : CAMEL, Call Report



IV. Information Sharing & Risk Analysis system

New Risk Analysis System under development — Call report Rating System (CARRS)

Ø Timing of use : when there is no new Examination Rating over 1 year.

Ø Outcome : Quarterly Rating Report.

Ø Package tool kits :

1. CDIC may conduct on-site inspections regarding the accuracy of reporting data.
2. CDIC may charge additional premium when serious deficiencies were discovered through inspections.



IV. Information Sharing & Risk Analysis system

C. Focus of Risk Analysis

1. Periodically conduct risk analysis towards insured institutions in order to manage insurance risk in a timely manner.
2. Use EWS to evaluate the performance of insured institutions, and intensify the off-site monitoring towards insured institutions with poor rating.
3. Continuously review and revise EWS in order to adopt necessary measures to reduce insurance risk at an early stage.



V. Measures of the Risk Management

A. Individual institution : CDIC assigns Account Officers to manage insured institutions with major operational deficiencies :

1

Depending on the case, CDIC applies call-reporting and Internet monitoring on a daily or weekly basis to track changes in liquidity or risky businesses.

2

Participating in supervisory meetings and guidance meetings convened by the competent authorities.

3

If insured institutions engaged in unsound business, CDIC sends letters for correcting deficiencies and continues the follow-up.





V. Measures of the Risk Management

4

If insured institutions undertook risky businesses, CDIC conducts special call-report monitoring, including tracking the trends of past due loans and changes of risky financing or overseas investment undertaken.

5

Regarding the capital inadequacies of insured institutions, CDIC takes several actions, including sending letters to the competent authorities, inviting responsible people for discussion, and dispatching staff for on-site visits etc.



V. Measures of the Risk Management

6

For insured institutions being significantly undercapitalized or with major crisis, in accordance with orders from the competent authorities, CDIC conducts on-site guidance or superintendence.

7

If insured institutions meet the following conditions, CDIC will give warning notices of terminating insured status or terminate deposit insurance contract

- n Violating laws and regulations
- n Violating deposit insurance contract
- n Engaged in unsound business





B. Overall Financial Risk

1

Holding seminars and workshops on managerial policies and risk management to facilitate sound operation of insured institutions



2

In compliance with government policies, disclose partial business information of insured institutions

- CDIC continues to extract partial business information of insured institutions in the CDIC's Deposit Insurance Quarterly Bulletin and on its website to exert market discipline.
- When in special case for market discipline, disclose individual institution's information.





V. Measures of the Risk Management

3

To issue important and specific financial risk reports from the macro perspective, including:

Report of domestic banks' performance

Report of cash cards and credit cards loans exposures

Report of real estate loans exposures

Report of investment risk in securitized products

Report of insured institutions' liability concentrations



VI Strategies for Managing the Future Insurance Risk

A. Early prevention is better than cure ex post

1. To develop and revise EWS and off-site monitoring mechanism in order to reveal operational deficiencies of insured institutions as early as possible

2. Conduct necessary off-site monitoring towards insured institutions with risky businesses, and request for improvement as soon as possible

3. Act as a "watch dog" to reduce the risk exposures or concentrations of insured institutions before it is too late



VI Strategies for Managing the Future Insurance Risk

B. Providing guidance in advance is better than payout

1. Constantly coordinate with supervisory agencies to assist problem institutions in completing self-restructuring plans or merged with other institutions to prevent from payout.

2. Issuing warning notices or terminating deposit insurance contracts towards problem banks to control insurance risk



VI Strategies for Managing the Future Insurance Risk

B. Providing guidance in advance is better than payout

3. Holding seminars periodically on risk management to enhance risk management capability of insured institutions

4. Enhancing information sharing and coordination mechanisms with supervisory agencies on events that may affect insured institutions to control the insurance risk earlier



Thank You

cdic@cdic.gov.tw

